

**Neuse River Council of Governments
d/b/a Eastern Carolina Council
New Bern, North Carolina**

Financial and Compliance Reports
Year Ended June 30, 2016

**Eastern Carolina Council of Government d/b/a Eastern Carolina Council
New Bern, North Carolina**

Executive Committee Members

Name	Title	County	Position
Shane Turney	President	Craven	Town of Trent Woods, Commissioner
James "Jay" Bender, Jr.	1st Vice President	Jones	Mayor of Pollocksville
Robin Comer	2nd Vice Present	Carteret	County Commissioner
Edward Riggs, Jr.	Treasurer	Pamlico	County Commissioner
William Barnes, Jr.	Member	Lenoir	Town of Grifton, Commissioner
Pat Prescott	Member	Pamlico	County Commissioner
Woody Brinson	Member	Duplin	County Commissioner
E. Ray Mayo	Member	Wayne	County Commissioner
Roland Best	Member	Lenoir	County Commissioner
The Honorable Ray McDonald Sr.	Member	Wayne	Mayor of Mount Olive
Frank Emory	Member	Jones	County Commissioner
Arthur Robinson	Member	Greene	Mayor of Hookerton
William "Bill" Taylor	Member	Carteret	Council Member of Morehead City
Jesse Dowe	Member	Duplin	County Commissioner
Scott Dacey	Member	Craven	County Commissioner
Bennie Heath	Member	Greene	County Commissioner

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Financial Section

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RSM US LLP

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee
Neuse River Council of Governments d/b/a Eastern Carolina Council
New Bern, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Neuse River Council of Governments d/b/a Eastern Carolina Council (the "Council"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-8, the Local Governmental Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 32-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The supplementary schedules listed on pages 34-38 and the Schedule of Expenditures of Federal and State Awards, as required by Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and The State Single Audit implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information identified in the preceding paragraph is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

RSM US LLP

New Bern, North Carolina
November 28, 2016

Management's Discussion and Analysis

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Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

This section of the Neuse River Council of Governments d/b/a Eastern Carolina Council ("Council") financial report represents management's discussion and analysis of the financial performance of the Council for the fiscal year ended June 30, 2016. This information should be read in conjunction with additional information that we have furnished in the Council's financial statements, which follow this narrative.

Regional councils are multi-county planning and development agencies serving different areas of the state. Membership in these councils is voluntary. In North Carolina, the Council is one of sixteen councils that share similar economic, physical and social characteristics.

Financial Highlights

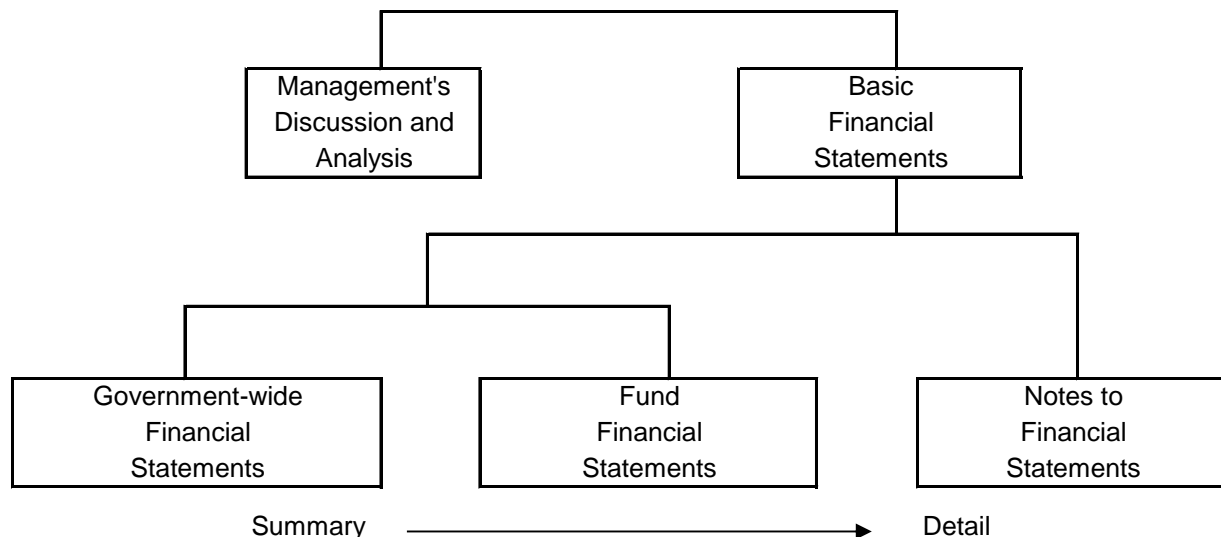
The assets of the Council exceeded its liabilities at the close of the fiscal year by \$425,596 (**net position**).

- The Council's total net position decreased by \$8,598 during the fiscal year due to an increase in expenditures.
- As of the close of the current fiscal year, the Council's governmental funds reported combined ending fund balances of \$515,265.
- The Council's fiscal obligation for accumulated personal leave amounts to \$41,543 at June 30, 2016.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Council's basic financial statements. Council's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Council through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Council.

Figure 1
Required Components of Annual Financial Report



Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

Basic Financial Statements

The first two statements (Pages 9 and 10) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Council's financial status.

The next statements (Pages 11, 12, 13 and 14) are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Council's government. These statements provide more detail than the government-wide statements. Budgetary information required by the General Statutes can be found in this part of the statements.

The next section of the basic financial statements is the **Notes to Financial Statements**. The notes to financial statements explain in detail some of the data contained in those statements. After the notes, **supplementary information** is provided to show details about the Council's individual funds. More budgetary information required by the General Statutes can be found in this part of the statements as well as the statement of changes in the fiduciary (agency) fund.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Council's finances on the accrual basis, similar in format to financial statements of a private-sector business. The government-wide statements provide short and long-term information about the Council's financial status as a whole.

The two government-wide statements report the Council's net position and how it has changed. Net position is the difference between the Council's total assets plus any deferred outflows and total liabilities plus any deferred inflows. Measuring net position is one way to gauge the Council's financial condition.

The government-wide statements present governmental activities only, as the Council has no business-type activities or discretely presented component units. The governmental activities include the Council's basic services. State and federal grant funds finance most of these activities.

The government-wide financial statements are on pages 9 and 10 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Council's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Council's budget ordinance. All of the funds of Council can be divided into two categories: governmental funds (including the general fund and the special revenue fund) and one fiduciary fund.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Council's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Council's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in reconciliations that are a part of the fund financial statements.

The Council adopts an annual budget for all Funds as required by North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Council's member local governments, the management of the Council, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Council to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Council complied with the budget ordinance and whether or not the Council succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting (the modified accrual basis) and is presented using the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board, 2) the final budget as amended by the board, 3) the actual resources, charges to appropriations, and ending balances in the General Fund, and 4) the difference or variance between the final budget and the actual resources and charges.

Fiduciary Funds – Fiduciary funds are used to account for resources received and held for the benefit of parties outside of the government. The Council has one agency fund.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 15 through 30 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain other supplementary information. That information can be found beginning on page 31 of this report.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

Government-Wide Financial Analysis

Table 1
Condensed Statements of Net Position as of June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Assets and deferred outflows		
Current and other assets	\$ 997,546	\$ 840,074
Capital assets	2,791	8,688
Restricted net pension asset	-	56,380
Deferred outflows of resources	33,979	36,051
Total assets and deferred outflows	1,034,316	941,193
Liabilities and deferred inflows		
Current liabilities	482,025	307,877
Long-term liabilities	41,543	40,583
Unearned revenue	46,572	-
Pension deferrals	38,580	158,539
Total liabilities and deferred inflows	608,720	506,999
Net position:		
Net investment in capital assets	2,791	8,688
Restricted	209,506	139,760
Unrestricted	213,299	285,746
Total net position	\$ 425,596	\$ 434,194

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the Council exceeded liabilities by \$425,596 as of June 30, 2016. The Council's net position decreased by \$8,598 for the fiscal year ended June 30, 2016. Also, \$2,791 of net position reflects the Council's net investment in its capital assets; consequently these assets are not available for future spending. Additionally, \$209,506 of net position is restricted by state statute. The remaining balance of \$213,299 is unrestricted.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

Government-Wide Financial Analysis (Continued)

Table 2

Condensed Statements of Net Activities for the Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 70,383	\$ 89,680
Operating grants and contributions	5,421,780	5,355,361
General revenues:		
Grants and contributions not program restricted	148,259	153,519
Investment earnings	-	2
Total revenues	5,640,422	5,598,562
Expenses:		
General government	94,883	115,654
Transportation	237,253	236,202
Environmental protection	48,499	31,046
Economic and physical development	97,373	119,768
Human services	5,171,012	5,080,080
Total expenses	5,649,020	5,582,750
Change in net position	(8,598)	15,812
Net position, beginning of year	434,194	520,090
Restatement for accounting change	-	(101,708)
Net position, beginning, as restated	434,194	418,382
Net position, June 30	\$ 425,596	\$ 434,194

Governmental activities decreased the Council's net position by \$8,598 thereby accounting for 100% of the total decrease in the net position of the Council. The Council's revenues and expenses increased by \$41,860 and \$66,270, respectively, from fiscal year 2015 to fiscal year 2016. The primary cause of the increase in revenues and expenses was an increase in federal and state awards received during the fiscal year.

Financial Analysis of the Council's Funds

As noted earlier, the Council uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Council's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the Council's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Management's Discussion and Analysis (Unaudited)

The General Fund is the chief operating fund of the Council. At the end of the current fiscal year, fund balance was \$553,322 for the general fund, of which \$337,906 was unassigned. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. General fund unassigned fund balance represents 383.2% of total general fund expenditures before indirect cost allocation.

At June 30, 2016, the governmental funds of the Council reported a combined fund balance of \$515,265, a 2.9% decrease over the June 30, 2016 combined balance due to current year expenditures in excess of revenues.

Governmental Funds Budgetary Highlights

During the fiscal year, the Council revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and (3) increased in appropriations that become necessary to maintain service.

The Council made several budget amendments due to increases or decreases in federal and State funding for various programs, and decreases in general administration. Total amendments to the Council's budget increased budgeted revenues by \$136,249. This increase is primarily due to increases to federal grant revenues.

As noted earlier, the Council uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Capital assets. The Council's investment in capital assets for its governmental activities as of June 30, 2016 totals \$2,791 (net of accumulated depreciation). These assets include furniture, fixtures, software and equipment used for operations and are scheduled in Note 2.A.3. in the Notes to Financial Statements.

Budgetary Highlights for the Coming Fiscal Year

The Council adopted a budget of \$5,370,188 for the fiscal year ending June 30, 2017 which is a 1.47% or \$77,417 increase from the original adopted budget for the previous year. The contribution rate of .353 cents per capita for member governments to the Council remains the same. The Council has a positive outlook for the upcoming year.

Requests for Information

This report is designed to provide an overview of the Council's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

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Neuse River Council of Governments
d/b/a Eastern Carolina Council
233 Middle Street, 3rd Floor
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New Bern, NC 28563-1717
(252) 638-3185, Ext 3005
jhills@eccog.org

Neuse River Council of Governments d/b/a Eastern Carolina Council

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 379,043
Accounts receivable	17,077
Awards receivable	585,513
Total current assets	<u>981,633</u>
Non-current assets	
Notes receivable	10,003
Prepaid items	5,910
Capital assets, net of depreciation	2,791
Total assets	<u><u>1,000,337</u></u>
Deferred outflows of resources	
Pension deferrals	<u>33,979</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	54,225
Net pension liability	46,316
Due to member counties	381,484
Total current liabilities	<u>482,025</u>
Long-term liabilities	<u>41,543</u>
Total liabilities	<u><u>523,568</u></u>
Deferred inflows of resources	
Unearned revenue	46,572
Pension deferrals	38,580
Total deferred inflows of resources	<u><u>85,152</u></u>
Net Position	
Net investment in capital assets	2,791
Restricted	209,506
Unrestricted	213,299
Total net position	<u><u>\$ 425,596</u></u>

See Notes to Financial Statements.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position
				Primary Governmental Activities
Governmental activities:				
General Government	\$ 94,883	\$ 70,383	\$ -	\$ (24,500)
Transportation	237,253	-	237,220	(33)
Environmental Protection	48,499	-	33,254	(15,245)
Economic and Physical Development	97,373	-	55,371	(42,002)
Human Services	5,171,012	-	5,095,935	(75,077)
Total governmental activities	\$ 5,649,020	\$ 70,383	\$ 5,421,780	(156,857)
General revenues:				
Local dues				148,259
Total general revenues				148,259
Change in net position				(8,598)
Net position, beginning of year				434,194
Net position, end of year				\$ 425,596

See Notes to Financial Statements.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Balance Sheet - Governmental Funds

June 30, 2016

	Major Funds		Total Governmental Funds
	General	Special Revenue	
Assets			
Cash and cash equivalents	\$ 379,043	\$ -	\$ 379,043
Accounts receivable	17,077	-	17,077
Awards receivable	-	585,513	585,513
Notes receivable	-	10,003	10,003
Prepaid items	5,910	-	5,910
Due from other funds	192,429	-	192,429
Total assets	\$ 594,459	\$ 595,516	\$ 1,189,975
Liabilities			
Accounts payable and accrued liabilities	\$ 27,962	\$ 26,263	\$ 54,225
Due to member counties	-	381,484	381,484
Due to other funds	-	192,429	192,429
Unearned revenue	13,175	33,397	46,572
Total liabilities	41,137	633,573	674,710
Fund balance (deficit)			
Nonspendable			
Notes receivable	-	10,003	10,003
Prepaid items	5,910	-	5,910
Restricted			
Stabilized by State statute	209,506	585,513	795,019
Unassigned fund balance	337,906	(633,573)	(295,667)
Total fund balance (deficit)	553,322	(38,057)	515,265
Total liabilities, deferred inflows of resources and fund balance	\$ 594,459	\$ 595,516	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,791
Net pension liability	(46,316)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	33,979
Pension related deferrals	(38,580)
Some liabilities, including accrued vacation are not due and payable in the current period and therefore are not reported in the funds	(41,543)
Net position of governmental activities	\$ 425,596

See Notes to Financial Statements.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)
 Governmental Funds - Annual Budget and Actual

General and Major Special Revenue Funds, with Total Governmental Funds Actual
 Year Ended June 30, 2016

	General			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues				
Federal government grants	\$ -	\$ -	\$ -	\$ -
State government grants	-	-	-	-
Local contributions	150,055	150,055	148,259	(1,796)
Miscellaneous	-	-	-	-
Contract services	-	-	70,383	70,383
Total revenues	150,055	150,055	218,642	68,587
Expenditures				
General government	187,798	174,993	94,883	80,110
Transportation	-	-	-	-
Environmental protection	-	-	-	-
Economic and physical development	-	-	-	-
Human services	-	-	-	-
Total expenditures	187,798	174,993	94,883	80,110
Revenues over (under) expenditures	(37,743)	(24,938)	123,759	148,697
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	37,743	24,938	(124,269)	(149,207)
Fund balance appropriated	-	-	-	-
Total other financing sources (uses)	37,743	24,938	(124,269)	(149,207)
	-	-	(510)	(510)
Net change in fund balance	\$ -	\$ -	(510)	\$ (510)
Fund balance (deficit), beginning			553,832	
Fund balance (deficit), end of year			<u>\$ 553,322</u>	

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
 (Deficit) of the General and Special Revenue Funds to the Statement of Activities:**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities

Some expenses reported in the statement of activities do not require the use of current financial resources in governmental funds:

Compensated absences

Pension expense

Change in net position of governmental activities

See Notes to Financial Statements.

Special Revenue				Total Governmental Funds
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Actual
Original	Final			
\$ 4,986,723	\$ 5,135,489	\$ 3,112,317	\$ (2,023,172)	\$ 3,112,317
48,263	50,365	2,255,530	2,205,165	2,255,530
47,450	47,087	47,450	363	195,709
-	4,500	-	(4,500)	-
210,335	195,716	6,483	(189,233)	76,866
5,292,771	5,433,157	5,421,780	(11,377)	5,640,422
-	-	-	-	94,883
237,250	295,408	237,253	58,155	237,253
4,000	37,680	48,499	(10,819)	48,499
105,000	105,000	97,373	7,627	97,373
4,908,778	4,999,210	5,177,577	(178,367)	5,177,577
5,255,028	5,437,298	5,560,702	(123,404)	5,655,585
37,743	(4,141)	(138,922)	(134,781)	(15,163)
(37,743)	(24,938)	124,269	149,207	124,269
-	-	-	-	(124,269)
-	29,079	-	(29,079)	-
(37,743)	4,141	124,269	120,128	-
-	-	(14,653)	(14,653)	(15,163)
\$ -	\$ -	(14,653)	\$ (14,653)	(15,163)
		(23,404)		530,428
		\$ (38,057)		\$ 515,265
				\$ (15,163)
				(5,897)
				(2,072)
				4,616
				9,918
				\$ (8,598)

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Statement of Fiduciary Net Position
June 30, 2016**

Assets

Accounts receivable	<u><u>\$ 7,419</u></u>
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Liabilities

Accounts payable	<u><u>\$ 7,419</u></u>
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See Notes to Financial Statements.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of Neuse River Council of Governments d/b/a Eastern Carolina Council (the "Council") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Council's accounting policies are described below.

A. Reporting Entity

The Council was formed as a jointly governed entity on May 9, 1967 to perform and carry out such powers, duties and responsibilities as authorized by North Carolina legislation. The Council is one of the sixteen regional councils of government formed pursuant to the General Statutes of North Carolina, Chapter 160A, Article 20, Part 2. Membership in the Council is composed of local governmental units who have:

1. Made application to the Council by resolution and adoption of the Council Charter and Bylaws.
2. Received membership acceptance and approval by the Board of Directors.
3. Appropriated in their annual budgets the pro-rata assessment for the support of the Council's operation.
4. Paid their annual pro-rata membership dues and are otherwise members in good standing.

As described below, although the Council is accounted for as a governmental entity, the Council does not have the statutory authority to levy taxes or issue bonds.

GAAP requires that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's statements to be misleading or incomplete. The Council has no component units, and is not a component unit of any other entity

B. Governance

The Board is constituted in a two-part governance:

1. The Executive Committee meets on several occasions throughout the year and is comprised of the following:
 - a. One county commissioner appointed by the member county.
 - b. One city/town alderman or councilman representing a member municipality elected by caucus of the member municipalities in that county.
 - c. Maximum number of Executive Committee is eighteen.
 - d. Officers of the Board are elected from those serving on the Executive Committee.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

2. General membership board meets twice a year and is comprised of the following:
 - a. The Executive Committee.
 - b. Additional members appointed as necessary to satisfy Federal requirements on Board composition. The Boards of County Commissioners of the appropriate counties would select these additional members.

Dues and administrative fees received from the related local governments amounted to \$154,192 for the year ended June 30, 2016.

The officers of the Council consist of a president, a first and second vice-president, and a treasurer, all of whom are elected from and by the Board of Directors of the Council, and the Executive Director, who serves as secretary.

C. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities display information about the primary government, and exclude any fiduciary funds. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and any business-type activities of a local government unit. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Council has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have not been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including member dues, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Council's funds. The Council currently maintains the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Council. The General Fund accounts for and reports all unrestricted resources except those required to be accounted for in other funds.

Special Revenue Fund – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are restricted by law or account for administrative action to expend funds for specified purposes. The primary revenue sources are federal and State grants, and the primary expenditures are for human services. The departments within this special revenue fund with current year operations are Transportation, Economic and Physical Development, Human Services, and Environmental Protection.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Council's fiduciary fund consists of:

The Coastal Coalition for Substance Abuse Prevention Fund ("CCSAP") – The agency fund is custodial in nature and does not involve the measurement of operating results. The fund is used to account for assets the Council holds on behalf of others. The Council maintains one agency fund for the purpose of accounting for the activities of CCSAP monies awarded to regional nonprofit organizations for which the Council acts as fiscal agent.

D. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Council are maintained during the year using the modified accrual basis of accounting.

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Council gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that long-term obligations (e.g. debt, compensated absences) and claims and judgments are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The Council considers all revenues available if they are collected within 90 days after year-end. Those revenues susceptible to accrual are members' dues, investment earnings, technical assistance contracts and fees, and federal and State restricted intergovernmental revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied, subject to meeting the availability criterion. Grant receipts that are unearned at year-end are included in deferred inflows of resources.

E. Budgetary Data

The Council's budgets are adopted, as required by the North Carolina General Statutes, annually for all funds. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the program or project level. The Council's Budget Officer is authorized to transfer appropriations within a program or project; however, any revisions that alter total expenditure of any program must be approved by the governing board.

The appropriations are formally budgeted and legally controlled on a program or project basis. The annual budget, which is prepared on the modified accrual basis of accounting as required by North Carolina statute, is amended during the fiscal year by the Executive Committee, and the final budget amounts reflected in the statement of revenues, expenditures, and changes in fund balance (deficit) represent the budget as amended to June 30, 2016. Unencumbered annual appropriations lapse at each fiscal year-end and must be re-appropriated in the following fiscal year's budget.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

F. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

G. Indirect Costs

Indirect costs in program or project expenditures are those costs not readily assignable to a program or incurred for a common or joint purpose benefiting more than one program or project. Indirect costs are charged to programs or projects during the year based on direct salaries and fringe benefits using a cost methodology plan approved by the United States Department of Commerce.

The United States Department of Commerce continues to be the cognizant agency for the Council. As a local government entity, and a public authority, the Council complies with the indirect cost methodology regulated by the Office of Management and Budget ("OMB") 2 CFR part 200, subpart E and the North Carolina State Treasurer Policies, Section 55, User Fees - Utilizing Expense / Expenditure Information.

Per definition of Uniform Guidance, the Council is a multi-function entity. The multi-functions include five (5) categories or functions: General Government, Transportation, Environmental Protection, Economic and Physical Development, and Human Services. To comply with the requirements of 2 CFR part 200, subpart E, the Council captures all indirect costs into one separate cost pool at the time of expenditure. On a monthly basis, the indirect costs are allocated to each function, and to individual awards and activities within that function, by means of the indirect cost methodology stated in 2 CFR part 200, subpart E – direct salaries and wages. Each month a percentage relationship is determined between salaries of a particular award or activity and its relation to the total salaries for the Council as a whole. The resultant percentage is applied to all indirect costs held in the pool. The indirect costs are then distributed to indirect line-items within each award or activity on that basis.

H. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the Council are made in board-designated official depositories and are collateralized as required by North Carolina General Statute 159-31. The Council may designate as an official depository any bank or savings association whose principal office is located in North Carolina. The Council may establish time deposits, such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the Council's deposits are either insured or collateralized under the Pooling Method, a system of state-wide single financial institution collateral pools, whereby all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. As the State Treasurer is acting in a fiduciary capacity for the Council, these deposits are considered to be held by the Council's agent in the Council's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Council or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Council under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling method depository. The Board has no formal policy regarding custodial credit risk for deposits, but informally complies with North Carolina General Statute 159-31.

At June 30, 2016, the Council's deposits had a carrying amount of \$379,043 and a bank balance of \$500,399. Of the bank balance, \$250,000 is covered under FDIC insurance and \$250,399 is covered under the Pooling Method. The Council's non-interest-bearing certificates of deposit in the amount of \$35,005, a requirement of the Council's current depository agreement, are included in the deposits.

North Carolina General Statute 159-30(c) authorizes the Council to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public Council; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). At June 30, 2016, the Council did not have any investments.

2. Notes Receivable

Loans are recognized as funds are loaned. Because the Council's notes receivable are long-term, they do not meet the definition of a current asset under the "current financial resources measurement focus" described above and, therefore, a like amount of the Council's special revenue fund balance is reported as nonspendable in the governmental funds balance sheet. Notes receivable determined to be uncollectible are shown in the statement of revenue, expenditures, and changes in fund balance as a reduction of fund balance. The amount of principal expected to be collected within one year on notes receivable is considered immaterial.

3. Capital Assets

Capital assets are reported in the government-wide financial statements only and are defined by the Council as assets with an initial, individual cost greater than a certain cost and an estimated useful life in excess of two years. For the year ended June 30, 2016, the Council continued its policy to set the threshold cost of capital assets at \$5,000. Therefore, capital assets meeting this policy threshold are recorded at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recoded at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Any gain or loss on disposition is reflected in the earnings for the period. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furniture and equipment	7 - 10
Copiers	5 - 7
Computer software	3
Computer equipment	3 - 5

4. Compensated Absences

Employees may accumulate up to 240 hours earned personal leave with such leave being fully vested when earned. Accumulated earned personal leave at June 30, 2016, was \$41,543. The Council's liability for accumulated earned personal leave as of June 30, 2016, is recorded in the government-wide financial statements and is considered to be used on a last-in, first-out (LIFO) basis, assuming that employees are taking leave time as it is earned. The current portion of the accumulated personal leave pay is not considered to be material and therefore, no current liability has been reported in the accompanying statement of net position.

In the governmental fund financial statements, an expenditure and a liability for compensated absences is recorded when payable, which occurs when the personal leave or sick leave is used or upon termination of an employee.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet - governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Council has one item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position and the balance sheet - governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as revenue until then. The Council has two items that meet this criterion, unearned revenue and deferrals of pension expense that result from the implementation of GASB Statement 68.

6. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements is classified as net investment in capital assets; restricted; or unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through State statute.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balances

Fund balance in the governmental fund financial statements is composed of three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

Governmental fund balance types classify fund balances as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Notes Receivable – Portion of fund balance that is not an available resource because it represents the year-end balances, which are not expected to be collected during the coming year and, therefore, are not considered spendable resources.

Prepaid items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

Restricted fund balance:

Restricted for Stabilization by State Statute – Portion of fund balance, which is not available for appropriation under North Carolina General Statute 159-8(a). This amount is usually comprised of accounts receivable and interfund receivables, which are not offset by unavailable receivables.

Unassigned fund balance – The portion of fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

I. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Council's employer contributions are recognized when due and the Council has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

J. Revenues, Expenditures and Expenses

1. Other Resources

The General Fund provides the basis of local resources for the special revenue fund. These transactions are recorded as "Transfers out" or "Transfer of local matching funds" in the General Fund and "Transfers in" or "Transfer of local matching funds" in the receiving fund.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 2. Detailed Notes on All Funds

A. Assets

1. Accounts and Awards Receivable

At June 30, 2016, accounts and awards receivable totaling \$602,590 consists of the following amounts due, principally from grantor agencies in the Special Revenue Fund:

General Fund	<u>\$ 17,077</u>
Special Revenue Fund	
Environmental Protection	7,629
Transportation	90,727
Human Services	<u>487,157</u>
	<u>585,513</u>
	<u><u>\$ 602,590</u></u>

2. Notes Receivable

Notes receivable at June 30, 2016, totaled \$10,003, and represented unpaid balances on loans to small businesses in eastern North Carolina. The loan program purpose is to create new jobs or maintain existing jobs in the region. The loan terms call for interest rates ranging from 6.5% to 9.0% and maturity dates range from July 2014 to August 2017. Payments are made monthly. The loans are collateralized in a number of ways depending on the business served. Types of collateral securing existing loans consist of: real estate, certificates of deposit, inventory, accounts receivable, vehicle titles, and life insurance policies. Certain notes have personal guarantees.

At June 30, 2016, the Council has not provided for a valuation allowance as it considers all outstanding loans to be fully collectible.

3. Capital Assets

The capital assets activity for the year ended June 30, 2016, is as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets being depreciated:				
Council equipment	\$ 174,288	\$ -	\$ 62,554	\$ 111,734
Less accumulated depreciation for:				
Council equipment	<u>(165,600)</u>	<u>(5,897)</u>	<u>(62,554)</u>	<u>(108,943)</u>
Governmental activity capital assets, net	<u><u>\$ 8,688</u></u>	<u><u>\$ (5,897)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,791</u></u>

Depreciation expense was charged to governmental functions as follows:

General Government	<u>\$ (5,897)</u>
	<u><u>\$ (5,897)</u></u>

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 2. Detailed Notes on All Funds (Continued)

B. Liabilities and Deferred Outflows and Inflows of Resources

1. Deferred Outflows and Inflows

Deferred outflows of resources as of June 30, 2016 is comprised of the following:

Contributions to pension plan in current fiscal year	<u><u>\$ 33,979</u></u>
--	-------------------------

Deferred inflows of resources as of June 30, 2016 is comprised of the following:

General Fund	
Unearned revenue	\$ 46,572
Pension deferrals	<u>38,580</u>
	<u><u>\$ 85,152</u></u>

Long-Term Obligation Activity

The following is a summary of long-term obligation changes for the fiscal year ended June 30, 2016:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities				
Net pension liability (LGERS)	\$ -	\$ 46,316	\$ -	\$ 46,316
Compensated absences	46,159	55,714	60,330	41,543
Total	<u>\$ 46,159</u>	<u>\$ 102,030</u>	<u>\$ 60,330</u>	<u>\$ 87,859</u>

2. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Council is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees of participating local governmental entities. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. LGERS is included in the Comprehensive Annual Financial Report (CAFR) of the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Notes to Financial Statements

Note 2. Detailed Notes on All Funds (Continued)

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Council employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Council's contractually required contribution rate for the year ended June 30, 2016, was 6.73% of compensation, actuarially determined as an amount that, when combined with employer contributions, is expected to finance the cost of benefits earned by employees during the year.. Contributions to the pension plan from the Council were \$33,507 for the year ended June 30, 2016.

Refunds of Contributions – Council employees who have terminated service as a contributing member of LGERS may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Council reported a liability of \$46,316 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015, utilizing update procedures incorporating the actuarial assumptions. The Council's proportion of the net pension liability was based on a projection of the Council's long-term share of future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Council's proportion was .01032%, which was an increase of .00076% from its proportion measured as of June 30, 2014.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 2. Detailed Notes on All Funds (Continued)

For the year ended June 30, 2016, the Council recognized pension revenue of \$9,918. At June 30, 2016, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 10,887
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	13,186
Changes in proportion and differences between Council contributions and proportionate share of contributions	472	14,507
Council contributions subsequent to the measurement date	33,507	-
Total	<u>\$ 33,979</u>	<u>\$ 38,580</u>

\$33,507 reported as deferred outflows of resources related to pensions resulting from Council contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (20,093)
2018	(20,093)
2019	(20,027)
2020	22,104
	<u>\$ (38,109)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 2. Detailed Notes on All Funds (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Council's proportionate share of the net pension asset to changes in the discount rate. The following presents the Council's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Council's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Council's proportionate share of the net pension liability (asset)	\$ 322,968	\$ 46,316	\$ (186,757)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 2. Detailed Notes on All Funds (Continued)

Supplemental Retirement Income Plan

Plan Description. The Council contributes to the Supplemental Retirement Income Plan, a defined contribution retirement (401(k)) plan administered by the Department of State Treasurer and a Board of Trustees. Article 5 of G.S Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan is also included in the CAFR of the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Full-time employees of the Council are eligible for the supplemental retirement plan. Under this plan, an employee may contribute a percentage of their annual gross salary as limited by federal tax laws. Additionally, the Council contributes 3% of an eligible employee's gross salary to the supplemental retirement plan, regardless of the employee's contribution. The Council's contribution to the 401(k) plan for the year ended June 30, 2016, was \$14,973.

3. Other Employment Benefits

The Council has elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (the System), a multi-employer State administered cost-sharing plan funded on a one-year term cost basis. Lump sum death benefits are provided to employees who have completed one year as a contributing member in the System and (a) die in active service or (b) die within 180 days of retirement or termination of service. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000, or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Council, the Council does not determine the number of eligible participants. The Council has no liability beyond the payment of monthly contributions. Annually, the State sets the Council's monthly contribution rate for death benefits as a percentage of monthly payroll. For the fiscal year ended June 30, 2016, the Council did not make any contributions to the State of North Carolina death benefits plan as none were required.

4. Fund Balance

The Council has a revenue spending policy for programs with multiple revenue sources. The Finance Officer works with the Department Director to ensure the use of resources in the following hierarchy: federal funds, State funds, local funds, Council funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed, assigned and unassigned fund balance. The Finance Officer has Board authorization to deviate from this policy if it is in the best interest of the Council. The following shows to the public the portion of the General Fund balance that is available for appropriation:

Total fund balance-General Fund	\$ 553,322
Less:	
Prepaid costs	5,910
Stabilized by state statute	209,506
Remaining fund balance	<u>\$ 337,906</u>

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 3. Summary Disclosure of Other Significant Commitments and Contingencies

A. Risk Management

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council participates in a self-funded risk financing pool administered by the North Carolina Association of County commissioners, transferring risk to the pool. Through this pool the Council obtains property insurance coverage of \$710,000 and general liability coverage of \$2 million. The pool is reinsured through commercial companies for single occurrence losses in excess of \$500,000 for property coverage and \$500,000 for general liability. The Council carries commercial coverage for all other risks of loss. Claims have not exceeded coverage in any of the past five fiscal years.

The Council purchased public officials bonds for the Finance Director and Executive Director in the amount of \$50,000.

In accordance with G.S. 159-29, the Council's employees that have access to \$100 or more at any given time of the Council's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$100,000. In addition, all employees are bonded under a blanket employee dishonesty bond for \$250,000.

B. Operating Lease

The Council is committed under an office space lease, which is considered for accounting purposes to be an operating lease. The Council also has noncancellable leases for certain office equipment. Rent under these leases for the year ended June 30, 2016, amounted to \$51,542.

Future minimum lease payments for the office and equipment leases are as follows:

<u>Year Ending June 30,</u>	<u>Total Minimum Lease Payments</u>
2017	45,144
2018	44,286
2019	40,458
2020	37,087
	<u>\$ 166,975</u>

C. Federal and State Assisted Programs

The Council has received significant amounts of proceeds from federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies. Due to the Council's reliance on government funding sources, changes in State and federal budgets could have a significant effect on the Council's future operations.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 4. Related Party Transactions

During the year ended June 30, 2016, the Council received and recorded dues revenues of \$154,192 from member governments, including Carteret, Craven, Duplin, Greene, Jones, Lenoir, Onslow, Pamlico and Wayne Counties and the municipalities within their boundaries.

Also during the year ended June 30, 2016, the Council expended the following amounts to member governments, in the form of pass-through monies:

Carteret County	\$ 499,352
Craven County	614,100
Duplin County	515,108
Greene County	238,620
Jones County	132,511
Lenoir County	493,942
Onslow County	689,231
Pamlico County	218,116
Wayne County	913,488
	<u>\$ 4,314,468</u>

Amounts due to member counties at June 30, 2016, are presented separately on the statement of net position and the balance sheet.

Note 5. Pronouncements Issued, Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Council.

GASB Statement No. 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans – this Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is effective for financial statements for fiscal years beginning after June 15, 2015.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. This statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to Financial Statements

Note 5. Pronouncements Issued, Not Yet Implemented (continued)

GASB Statement No 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its values for assessing government accountability. The requirements of this Statement are effective for financial statements beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No 68, and No. 73*. This Statement will address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to*

Certain Provisions of GASB Statements 67 and 68. This statement is effective for financial statements for fiscal years beginning after June 15, 2017.

Note 6. Commitments and Contingencies

The Agreement to Terminate the Financial Assistance Award for Convenience with the EDA related to the RLF in fiscal year 2012 did not relieve the Council of the obligation to pay the federal share on any amounts recovered on defaulted loans for a period of 10 years.

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**Required
Supplementary Financial Data**

This section contains additional information required by generally accepted accounting principles.

- Schedule of Proportionate Share of Net Pension Asset for Local Governmental Employees' Retirement System
- Schedule of Contributions to Local Governmental Employees' Retirement System

**Neuse River Council of Governments d/b/a Eastern Carolina Council
Council's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Three Fiscal Years***

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Council's proportion of the net pension liability (asset) (%)	0.01032%	0.00956%	0.01130%
The Council's proportion of the net pension liability (asset) (\$)	\$ 46,316	\$ (56,380)	\$ 136,208
The Council's covered employee payroll*	\$ 509,914	\$ 487,979	\$ 592,330
The Council's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.08%	-11.06%	23.00%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

**Neuse River Council of Governments d/b/a Eastern Carolina Council
Council's Contributions
Required Supplementary Information
Last Three Fiscal Years**

Local Governmental Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 33,507	\$ 36,051	\$ 34,500
Contributions in relation to the contractually required contribution	<u>33,507</u>	<u>36,051</u>	<u>34,500</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Council's covered-employee payroll	\$ 497,875	\$ 509,914	\$ 487,979
Contributions as a percentage of covered-employee payroll	6.73%	7.07%	7.07%

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Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Revenues and Expenditures
General Fund
For the Year Ended June 30, 2016

<hr/>	
Revenues	
Local	\$ 154,392
Contract revenues	64,250
	<hr/>
Total revenues	218,642
<hr/>	
Expenditures	
Compensation and benefits	154,773
Board and advisory expenses	17,596
Travel	6,381
Rent	59,625
Utilities and maintenance	18,096
Training	6,108
Dues and subscriptions	12,016
Supplies	12,647
Professional services	29,794
Regulatory expenses	631
Systems administration	25,379
Miscellaneous	4,666
	<hr/>
	351,596
Indirect costs allocated	(256,713)
	<hr/>
Total expenditures	94,883
	<hr/>
Revenues over expenditures	123,759
	<hr/>
Operational matching transfers (out)	(124,269)
	<hr/>
Revenues and other financing sources over expenditures	\$ (510)
	<hr/>

Neuse River Council of Governments d/b/a Eastern Carolina Council

Combining Schedule of Revenues and Expenditures by Program
 Special Revenue Fund
 For the Year Ended June 30, 2016

	Transportation	Environmental Protection	Economic and Physical Development	Human Services	Total Special Revenue Funds
Revenues					
Federal	\$ 189,800	\$ 33,254	\$ 55,371	\$ 2,833,892	\$ 3,112,317
State	(30)	-	-	2,255,560	2,255,530
Local	47,450	-	-	-	47,450
Contract revenues	-	-	-	6,483	6,483
Total revenues	237,220	33,254	55,371	5,095,935	5,421,780
Expenditures					
Direct support to counties, others	-	-	-	4,412,856	4,412,856
Compensation and benefits	125,978	35,035	52,923	388,873	602,809
Board and advisory expenses	-	-	-	2,229	2,229
Travel	9,283	542	7,904	52,212	69,941
Rent	726	-	260	1,395	2,381
Maintenance	8,968	-	-	8,487	17,455
Advertising	2,859	-	-	33,500	36,359
Training	986	-	1,947	12,343	15,276
Dues and publications	638	-	-	2,730	3,368
Supplies	21,650	268	3,629	18,142	43,689
Professional services	1,500	-	1,313	60,392	63,205
Systems administration	10,494	-	-	13,253	23,747
Miscellaneous	-	18	6,641	3,501	10,160
Special Projects	-	-	-	514	514
Indirect costs	54,171	12,636	22,756	167,150	256,713
Total expenditures	237,253	48,499	97,373	5,177,577	5,560,702
Revenues (under) expenditures	(33)	(15,245)	(42,002)	(81,642)	(138,922)
Operational matching transfers in	-	-	42,000	82,269	124,269
Revenues and other financing sources over (under) expenditures	\$ (33)	\$ (15,245)	\$ (2)	\$ 627	\$ (14,653)

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Schedule of Member Dues and Administrative Fees Revenue
For the Year Ended June 30, 2016**

County	
Carteret	\$ 24,390
Craven	34,564
Duplin	20,869
Greene	7,095
Jones	2,704
Lenoir	13,283
Onslow	15,313
Pamlico	4,211
Wayne	31,763
	<u>\$ 154,192</u>

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Schedule of Indirect Costs
For the Year Ended June 30, 2016**

		FY 2016 Indirect Rate	
Indirect Rate Calculation			
<u>Total indirect expenditures fiscal year 2015 (budgeted)</u>	=	<u>\$ 250,423</u>	43%
Total direct salaries fiscal year 2015 (budgeted)		\$ 580,771	
Total Direct Salaries fiscal year 2015		<u>560,349</u>	
General Fund Charges		15,529	
Special Revenue Fund Charges		<u>256,713</u>	
Total Indirect costs charged fiscal year 2016		<u><u>\$ 272,242</u></u>	

The Council does not use a Fringe Benefit Rate. Fringe Benefits are charged directly to the program or cost center by staff person.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Changes in Fiduciary Net Position - Agency Funds
For the Year Ended June 30, 2016

	Balance			Balance
	June 30, 2015	Additions	Deductions	June 30, 2016
Assets				
Cash	\$ -	\$ 107,348	\$ 107,348	\$ -
Accounts receivable	7,695	7,419	7,695	7,419
Total assets	<u>\$ 7,695</u>	<u>\$ 114,767</u>	<u>\$ 115,043</u>	<u>\$ 7,419</u>
Liabilities				
Escrow funds	\$ -	\$ 107,348	\$ 107,348	\$ -
Accounts payable	7,695	7,419	7,695	7,419
Total liabilities	<u>\$ 7,695</u>	<u>\$ 114,767</u>	<u>\$ 115,043</u>	<u>\$ 7,419</u>

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Compliance Section

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Executive Committee
Neuse River Council of Governments d/b/a Eastern Carolina Council
New Bern, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Neuse River Council of Governments d/b/a Eastern Carolina Council (the "Council"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given the limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

New Bern, North Carolina
November 28, 2016



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

RSM US LLP

To the Executive Committee
Neuse River Council of Governments d/b/a Eastern Carolina Council
New Bern, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Neuse River Council of Governments d/b/a Eastern Carolina Council's (the "Council's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the Audit Manual for Governmental Auditors in North Carolina issued by the Local Government Commission that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2016. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

New Bern, North Carolina
November 28, 2016

**Independent Auditor's Report on Compliance for Each
Major State Program and Report on
Internal Control Over Compliance**

To the Executive Committee
Neuse River Council of Governments d/b/a Eastern Carolina Council
New Bern, North Carolina

Report on Compliance for Each Major State Program

We have audited Neuse River Council of Governments d/b/a Eastern Carolina Council's (the "Council's") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina* issued by the Local Government Commission that could have a direct and material effect on each of the Council's major State programs for the year ended June 30, 2016. The Council's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major State Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with the applicable sections of the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of applicable sections of the Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

New Bern, North Carolina
November 28, 2016

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were in accordance with GAAP:

	Unmodified	
Internal control over financial reporting:		
Material weakness(as) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major federal programs:

	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ <input checked="" type="checkbox"/> No

Identification of major federal programs:

CFDA Number	Program Name or Cluster
Aging Cluster	
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services
93.053	Nutrition Services Incentive Program
93.667	Social Services Block Grant (included in Aging Cluster)

Dollar threshold used to distinguish between type A and type B programs

_____ \$ 750,000 _____

Auditee qualified as low-risk auditee?

_____ Yes _____ No

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2016

Section I - Summary of Independent Auditor's Results (Continued)

State Awards

Internal control over major state programs:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major state programs:

_____ Unmodified _____

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

_____ Yes _____ No

Identification of major State programs:

CFDA Number	Program Name or Cluster
Aging Cluster	
N/A	Ombudsman
N/A	Access
N/A	In Home/Support Services
N/A	Home Delivered Meals

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016**

Section II - Financial Statement Findings

Finding 2015-001 - Year-end closeout entries not recorded properly

Year-end closeout entries are being reconciled and recorded appropriately. Proper year-end cutoff procedures are being performed and are in accordance with the modified accrual basis of accounting. Overall maintenance of accounting records and accounting software expertise has significantly improved.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2016

	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures	State Expenditures	Pass-through to Subrecipients
Federal Programs					
<u>US Department of Health & Human Services</u>					
Passed through NC Dept of Health and Human Services					
Division of Aging & Adult Services					
Aging Cluster:					
(93.044, 93.045 & 93.053):					
Special Programs for the Aging - Title III B	93.044	NC-15			
Planning and administration			\$ 87,039	\$ 4,771	\$ -
Ombudsman			94,302	5,547	-
Legal Services			21,864	1,280	23,144
Access			294,330	17,314	311,644
In Home/Support Services			468,682	27,570	496,252
Special Programs for the Aging - Title III C	93.045	NC-15			
Planning and Administration			116,816	6,403	-
Congregate Meals			608,389	35,788	644,177
Home Delivered Meals			318,706	18,748	337,454
Nutrition Services Incentive Program (NSIP)	93.053	*	252,430	-	252,430
Total Aging Cluster			2,262,558	117,421	2,065,101
Medicare Improvement for Patients and Providers	93.518	NC-15	20,507	-	-
SHIIP	93.791		3,472	-	-
Special Programs for the Aging - Title III D	93.043	NC-15			
Preventive Health			47,824	2,813	40,049
Social Services Block Grant In-home	93.667	NC-15	120,180	3,434	123,614
Elder Abuse Prevention	93.041	NC-15			
Title VII Elder Abuse			9,040	532	-
Special Programs for the Aging - Title VII E	93.042	NC-15			
Ombudsman			14,413	848	-
Money Follows the Person					
Rebalancing Demonstration	93.791	NC-15	23,829	-	-
LCA	93.791	NC-15	50,397	-	-
National Family Caregiver Support Program	93.052	NC-15			
Planning and administration			25,195	1,380	-
Family Caregiver Services			256,474	17,098	149,071
Total Family Caregiver Services			281,669	18,478	149,071
Lifespan Respite Care Program	93.072		2,375	-	2,200
Total US Department of Health and Human Services			2,836,264	143,526	2,380,035

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended June 30, 2016

	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures	State Expenditures	Pass-through to Subrecipients
<u>US Department of Commerce</u>					
Direct Program					
Economic Development Administration (EDA) Supplemental	11.302	04-83-06129	\$ 66,290	\$ -	\$ -
<u>US Department of Transportation</u>					
Passed through the NC Department of Transportation					
State Planning & Research Rural					
East Carolina RPO	20.205-8	-	92,500	-	-
Down East RPO	20.205-8	-	97,300	-	-
Total US Department of Transportation			189,800	-	-
State Grants					
<u>NC Department of Health and Human Services</u>					
Passed through Division of Aging & Adult Services					
Ombudsman - 90% State Funds	-	NC-15	-	30,954	-
Access 90% State Funds	-	NC-15	-	337,028	337,028
In Home/Support Services - 90% State Funds	-	NC-15	-	1,196,821	1,196,821
Home Delivered Meals - 90% State	-	NC-15	-	406,301	406,301
Title III P&A / AAA Administration	-	NC-15	-	48,262	-
Senior Center Development / General Purpose	-	NC-15	-	87,373	87,373
Operation Fan	-	NC-15	-	5,298	5,298
Total NC Department of Health and Human Services			-	2,112,037	2,032,821
<u>NC Department of Transportation</u>					
Regional Bicycle Planning Grant	-	DOT-24	-	(30)	-
Total assistance expended			\$ 3,092,354	\$ 2,255,533	\$ 4,412,856

See notes to Schedule of Expenditures of Federal and State Awards

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to the Schedule of Expenditures of Federal and State Awards For the Fiscal Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (the "Schedule") includes the federal and State award activity of Neuse River Council of Governments d/b/a Eastern Carolina Council, primary government, under programs of the federal and State government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Neuse River Council of Governments d/b/a Eastern Carolina Council, it is not intended to and does not present the financial position and changes in net assets of Neuse River Council of Governments d/b/a Eastern Carolina Council.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Neuse River Council of Governments d/b/a Eastern Carolina Council has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Neuse River Council of Governments d/b/a Eastern Carolina Council

**Notes to the Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended June 30, 2016**

Note 3. Subrecipients

Federal and State awards which have been passed-through to subrecipients by program:

Program		Federal CFDA/ State	
		Pass-through Number	Federal and State Amount
Carteret County	HCCBG - In Home/Support Services	93.667	\$ 11,120
Craven County	HCCBG - In Home/Support Services	93.667	12,517
Duplin County	HCCBG - In Home/Support Services	93.667	9,820
Greene County	HCCBG - In Home/Support Services	93.667	5,486
Jones County	HCCBG - In Home/Support Services	93.667	1,834
Lenoir County	HCCBG - In Home/Support Services	93.667	25,460
Onslow County	HCCBG - In Home/Support Services	93.667	32,081
Pamlico County	HCCBG - In Home/Support Services	93.667	2,021
Wayne County	HCCBG - In Home/Support Services	93.667	23,275
Carteret County	HCCBG - In Home/Support Services	93.044	94,487
Craven County	HCCBG - In Home/Support Services	93.044	59,454
Duplin County	HCCBG - In Home/Support Services	93.044	27,779
Greene County	HCCBG - In Home/Support Services	93.044	16,723
Jones County	HCCBG - In Home/Support Services	93.044	8,742
Lenoir County	HCCBG - In Home/Support Services	93.044	77,222
Onslow County	HCCBG - In Home/Support Services	93.044	107,318
Pamlico County	HCCBG - In Home/Support Services	93.044	31,146
Wayne County	HCCBG - In Home/Support Services	93.044	73,380
Carteret County	HCCBG - In Home/Support Services	NC-15	179,348
Craven County	HCCBG - In Home/Support Services	NC-15	134,706
Duplin County	HCCBG - In Home/Support Services	NC-15	84,577
Greene County	HCCBG - In Home/Support Services	NC-15	70,628
Jones County	HCCBG - In Home/Support Services	NC-15	17,710
Lenoir County	HCCBG - In Home/Support Services	NC-15	221,592
Onslow County	HCCBG - In Home/Support Services	NC-15	223,336
Pamlico County	HCCBG - In Home/Support Services	NC-15	66,696
Wayne County	HCCBG - In Home/Support Services	NC-15	198,229
Carteret County	HCCBG - Access	93.044	23,909
Craven County	HCCBG - Access	93.044	51,935
Duplin County	HCCBG - Access	93.044	40,234
Greene County	HCCBG - Access	93.044	16,636
Jones County	HCCBG - Access	93.044	11,712
Lenoir County	HCCBG - Access	93.044	29,815
Onslow County	HCCBG - Access	93.044	44,964
Wayne County	HCCBG - Access	93.044	92,441

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to the Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2016

Note 3. Subrecipients (Continued)

Subrecipient	Program Name	Federal CFDA/ State Pass-through Number	Federal and State Amount
Carteret County	HCCBG - Access	NC-15	\$ 29,216
Craven County	HCCBG - Access	NC-15	72,506
Duplin County	HCCBG - Access	NC-15	50,274
Greene County	HCCBG - Access	NC-15	10,663
Jones County	HCCBG - Access	NC-15	12,273
Lenoir County	HCCBG - Access	NC-15	23,781
Onslow County	HCCBG - Access	NC-15	54,293
Wayne County	HCCBG - Access	NC-15	84,020
Carteret County	HCCBG - Congregate Meals	93.045	84,872
Craven County	HCCBG - Congregate Meals	93.045	51,282
Duplin County	HCCBG - Congregate Meals	93.045	156,896
Greene County	HCCBG - Congregate Meals	93.045	44,566
Jones County	HCCBG - Congregate Meals	93.045	26,438
Lenoir County	HCCBG - Congregate Meals	93.045	56,934
Onslow County	HCCBG - Congregate Meals	93.045	85,268
Pamlico County	HCCBG - Congregate Meals	93.045	29,771
Wayne County	HCCBG - Congregate Meals	93.045	108,150
Carteret County	HCCBG - Home Delivered Meals	93.045	17,866
Craven County	HCCBG - Home Delivered Meals	93.045	91,249
Duplin County	HCCBG - Home Delivered Meals	93.045	34,139
Greene County	HCCBG - Home Delivered Meals	93.045	15,650
Jones County	HCCBG - Home Delivered Meals	93.045	16,532
Lenoir County	HCCBG - Home Delivered Meals	93.045	18,123
Onslow County	HCCBG - Home Delivered Meals	93.045	27,966
Pamlico County	HCCBG - Home Delivered Meals	93.045	41,869
Wayne County	HCCBG - Home Delivered Meals	93.045	74,062
Carteret County	HCCBG - Home Delivered Meals	NC-15	24,964
Craven County	HCCBG - Home Delivered Meals	NC-15	66,919
Duplin County	HCCBG - Home Delivered Meals	NC-15	50,903
Greene County	HCCBG - Home Delivered Meals	NC-15	22,338
Jones County	HCCBG - Home Delivered Meals	NC-15	22,890
Lenoir County	HCCBG - Home Delivered Meals	NC-15	30,448
Onslow County	HCCBG - Home Delivered Meals	NC-15	39,722
Pamlico County	HCCBG - Home Delivered Meals	NC-15	19,149
Wayne County	HCCBG - Home Delivered Meals	NC-15	128,966

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to the Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended June 30, 2016

Note 3. Subrecipients (Continued)

Subrecipient	Program Name	Federal CFDA/ State Pass-through Number	Federal and State Amount
Carteret County	USDA Nutrition	93.053	\$ 16,088
Craven County	USDA Nutrition	93.053	36,448
Duplin County	USDA Nutrition	93.053	39,438
Greene County	USDA Nutrition	93.053	12,807
Jones County	USDA Nutrition	93.053	10,319
Lenoir County	USDA Nutrition	93.053	10,567
Onslow County	USDA Nutrition	93.053	27,200
Pamlico County	USDA Nutrition	93.053	14,434
Wayne County	USDA Nutrition	93.053	85,129
Legal Aid of North Carolina	Legal Services	93.044	21,864
Legal Aid of North Carolina	Legal Services	NC-15	1,280
Carteret Senior Services	Senior Center Outreach and General Purpose	NC-15	11,399
Havelock Senior Center	Senior Center Outreach and General Purpose	NC-15	7,600
Craven Department of Social Services	Senior Center Outreach and General Purpose	NC-15	3,800
Duplin Services on Aging	Senior Center Outreach and General Purpose	NC-15	3,797
Greene County Senior Services	Senior Center Outreach and General Purpose	NC-15	11,399
Jones Co-op Extension	Senior Center Outreach and General Purpose	NC-15	3,799
Lenoir County Council on Aging	Senior Center Outreach and General Purpose	NC-15	11,399
Onslow Senior Services	Senior Center Outreach and General Purpose	NC-15	11,399
Pamlico Senior Services	Senior Center Outreach and General Purpose	NC-15	11,400
Wayne Services of Aging	Senior Center Outreach and General Purpose	NC-15	11,381
Carteret Senior Services	Special Programs for the Aging - Title III D	93.043	5,359
Craven Department of Social Services	Special Programs for the Aging - Title III D	93.043	6,265
Duplin Services on Aging	Special Programs for the Aging - Title III D	93.043	5,193
Greene County Senior Services	Special Programs for the Aging - Title III D	93.043	2,168
Lenoir County Council on Aging	Special Programs for the Aging - Title III D	93.043	5,014
Onslow Senior Services	Special Programs for the Aging - Title III D	93.043	6,178
Pamlico Senior Services	Special Programs for the Aging - Title III D	93.043	1,350
Wayne Services of Aging	Special Programs for the Aging - Title III D	93.043	8,522

(Continued)

Neuse River Council of Governments d/b/a Eastern Carolina Council

Notes to the Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2016

Note 3. Subrecipients (Continued)

Subrecipient	Program Name	Federal CFDA/ State Pass-through Number	Federal and State Amount
Coastal Community Action	National Family Caregiver Support Program	93.052	\$ 39,742
Craven Department of Social Services	National Family Caregiver Support Program	93.052	18,733
Duplin Services on Aging	National Family Caregiver Support Program	93.052	11,592
Greene Home Health	National Family Caregiver Support Program	93.052	9,276
Lenoir County Council on Aging	National Family Caregiver Support Program	93.052	14,028
Onslow Senior Services	National Family Caregiver Support Program	93.052	28,706
Wayne Services of Aging	National Family Caregiver Support Program	93.052	24,619
Carteret Community Action	Operation Fan	NC-15	724
Craven Department of Social Services	Operation Fan	NC-15	686
Duplin Services on Aging	Operation Fan	NC-15	466
Greene County Senior Services	Operation Fan	NC-15	280
Jones Co-op Extension	Operation Fan	NC-15	262
Lenoir County Council on Aging	Operation Fan	NC-15	486
Onslow Senior Services	Operation Fan	NC-15	800
Pamlico Senior Services	Operation Fan	NC-15	280
Wayne Services of Aging	Operation Fan	NC-15	1,314
Total Federal and State Awards Passed-Through to Subrecipients For Aging Programs			\$ 4,408,281
Various Agencies	Lifespan Respite Care Program	93.072	2,200
Various Agencies	National FCSP	93.052	2,375
			4,575
Total Federal and State Awards Passed-Through to Subrecipients			\$ 4,412,856
Total Federal and State Awards Passed-Through to Subrecipients Summary by Program			
HCCBG - In Home/Support Services		93.044	\$ 1,693,073
HCCBG - Access		93.044	648,672
HCCBG - Congregate Meals		93.045	644,177
HCCBG - Home Delivered Meals		93.045	743,755
Nutrition Services Incentive Program (NSIP)		93.053	252,430
Legal Services		93.044	23,144
Senior Center Outreach and General Purpose		NC-15	87,373
Special Programs for the Aging - Title III D		93.043	40,049
National Family Caregiver Support Program		93.052	146,696
Social Services Block Grant		93.667	123,614
Operation Fan		NC-15	5,298
Total Federal and State Awards Passed-Through to Subrecipients For Aging Programs			\$ 4,408,281